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UNCLAS SECTION 01 OF 02 KABUL 000558

DEPT FOR SCA/FO, SCA/RA, AND SCA/A

DEPT PASS FOR AID/ANE

DEPT PASS USTR FOR DELANEY AND DEANGELIS

DEPT PASS OPIC

DEPT PASS FOR TDA FOR STEIN AND GREENIP

USOECD FOR ENERGY ATTACHE

CENTCOM FOR CSTC-A

NSC FOR JWOOD

TREASURY FOR MHIRSON, ABAUKOL, AWELLER, AND MNUGENT

OSD FOR SHIVERS

COMMERCE FOR DEES, CHOPPIN, AND FONOVICH

SENSITIVE

SIPDIS

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TAGS: EFIN ECON EAID IMF PREL AF

SUBJECT: CHARGE'S INITIAL CALL ON NEW AFGHAN FINANCE MINISTER

REF: A) Kabul 323 B) Kabul 317

**¶1.** (SBU) Summary. Newly-confirmed Finance Minister Zakhilwal told the Charge March 4 that Afghanistan is working to meet the three prior actions required for IMF Board review before the program expires in June. He said the government may fall just short of the revenue target in the IMF program this fiscal year and that he would institute a series of measures to meet and surpass next year's revenue target. Zakhilwal described plans to increase fiscal revenue and assured the Charge that Customs would gain full access to the oil import depot at Hairatan, another IMF condition. The Charge welcomed Minister Zakhilwal's emphasis on private sector development, increasing revenues, and anti-corruption and assured him of continued U.S. cooperation and support. End Summary

**¶2.** (SBU) The Charge congratulated Zakhilwal on his appointment as Finance Minister and his strong confirmation earlier that week by the Parliament. Zakhilwal said he was taking the job at a challenging time but that he was not new to challenges. He said he had spoken candidly in his parliamentary confirmation hearing, expressing strong support for private sector development and privatization of state-owned enterprises, despite opposition to privatization among many MPs. Zakhilwal said he told Parliament that corruption, in both his ministry (especially Customs) and others, reduces government revenues, and that he would not tolerate Parliamentary pressure to protect corrupt officials he tries to dismiss. In the hearing he also stressed the need for joint GIRoA-donor evaluations of aid projects to prevent future waste - a controversial proposal that in the past has been used to harass U.S. implementing partners.

**¶3.** (SBU) Zakhilwal said the GIRoA would come close but might not reach the revised FY 2008-09 domestic revenue target of Afs 40 billion (\$770 million) recently agreed with the IMF. On the other hand, he was confident FY 2009-10 revenues would surpass that year's target of Afs 51 billion (\$981 million), if he can institute various changes. He said the GIRoA can raise substantial new revenues by streamlining vehicle licensing procedures (\$200-\$300 million), and increasing charges for mining permits (\$100 million), civil aviation fees (\$50 million), and leased agricultural land. (Note: In a separate meeting March 5, Agriculture Minister Rahimi told Ag Attache and EconCouns that \$100 million can be raised from agricultural leases of state-owned land.) Zakhilwal said such

changes would require cooperation with other ministries. He had good partners in the ministers of Interior, Commerce, and Agriculture; in contrast, his proposals would not be popular with the ministers of Transport and Mining. Nonetheless, he would push.

¶4. (SBU) Zakhilwal said he is also pressing for full implementation of the MOU between the Finance and Commerce ministries on Customs access to the Hairatan fuel import depot owned by FLGE, the state-owned importer under MOCI. He assured the Charge that MOF would gain the full access mandated in the MOU and that anything less would be unacceptable. He also admitted that housecleaning is also needed at Customs to increase revenues. "We can't just replace their [MOCI's] bad people with ours." The Charge welcomed Zakhilwal's assurance on MOU implementation and said the USG would limit assistance to MOCI until Commerce Minister Shahrani fulfills his ministry's side of this agreement. (Note: Based on latest information from MOF staff and the IMF resrep, FLGE is providing limited access to Customs officials at Hairatan but requires written instructions from FLGE headquarters to provide full access. )

¶5. (SBU) Zakhilwal said he is trying to fill ministry positions with good people and replace non-performers but needs support to offer attractive salaries to retain staff and reduce reliance on bribes. He also raised the need for specialized technical assistance in areas related to increased revenue generation and collection (e.g. vehicle licensing, civair charges, and land leasing). He said he will also work on the spending side of the budget and estimated that the GIRoA pays 15-20 percent more than it should for the goods and services it receives.

¶6. (SBU) The Charge noted the long and close relationship between the U.S. Mission and MOF. He welcomed the priority Zakhilwal has

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placed on private sector development, increasing revenues, and anti-corruption. He encouraged the minister to discuss further cooperation with the USAID Mission Director. Noting the substantial USG support for strengthening Customs, the Charge expressed concern that MOF's planned staffing increase for administrative personnel exceeds that for Customs. He also said the U.S. is stressing "Afghanization" and directing more of its aid through the national budget and is therefore concerned about weak and delayed implementation of the Afghanistan National Development Strategy (ANDS - see septel).

¶7. (SBU) Zakhilwal said the GIRoA and donors share equal blame for problems with ANDS implementation. He admitted that the division of labor between MOF and the Ministry of Economy created a diffusion of responsibility, and that high-level changes in the government had also contributed to drift. But Zakhilwal asserted that donors are not aligning their programs with the ANDS and are channeling less of their funding this year, not more as the GIRoA has repeatedly asked, through the national budget. He said donors should reward the GIRoA's modest reforms to date in order to encourage further reform. GIRoA capacity could only be built if donors trust the government with resources. A JCMB Development Standing Committee meeting would take up these issues later in March.

¶8. (SBU) The Charge said the U.S. is increasing the share of its aid being channeled through the Afghan government by certifying key line ministries to receive direct budget support and through the ARTF, including the proposed incentive scheme, though more could be done. Looking forward, USAID aims to increase the share of funds channeled through Afghan systems to 50 percent by 2011 and to 75 percent by ¶2014. The U.S., he said, seeks to lead by setting a good example for other donors. The Charge assured Minister Zakhilwal of continued U.S. cooperation and support, despite economic problems at home.

WOOD